

Kuwait: Real estate sales return to pre-pandemic levels supported by robust residential sector

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Highlights

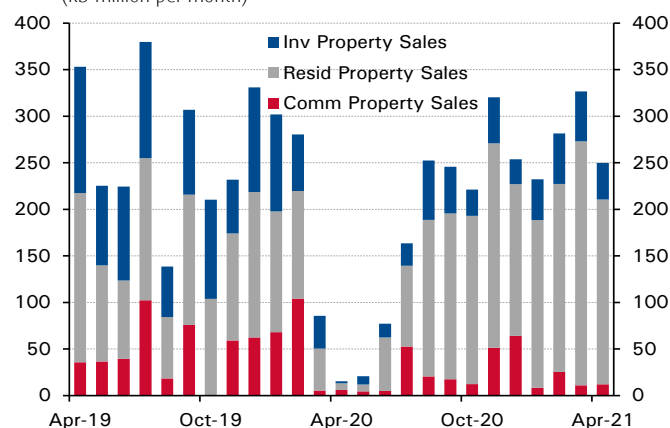
- Real estate sales have recovered to pre-pandemic levels in recent months, reaching KD250 million in April.
- Higher sales have come mostly from the residential sector, with transaction volumes up 144% y/y in 1Q21.
- Investment and commercial sector sales have partially recovered from 2Q20 lows, but remain relatively subdued.
- Headwinds to commercial and investment sectors include a weaker business environment and lower expat population.
- The government-approved draft mortgage law, once passed, could ease access to financing and boost residential activity.

Real estate sales back roughly to pre-pandemic levels

Real estate sales, previously depressed due to the pandemic and the national lockdown that brought sales to a historical low in 2Q20, have rebounded to pre-pandemic levels, averaging a monthly KD280 million in 1Q21, up 26% y/y. (Chart 1.) The solid sales extended through April, which saw KD250 million, and came despite ongoing weakness in the commercial and investment sectors, where levels have only partially recovered from their 2Q20 lows, largely due to the deterioration of business and labor market conditions in the aftermath of the pandemic.

► **Chart 1: Real estate sales**

(KD million per month)



Source: Ministry of Justice/ NBK

Meanwhile, residential sector sales proved resilient, swiftly rebounding following the easing of lockdown measures in July, and gathering strength supported by pent-up demand and increased offerings in several emerging areas. It is also worth noting that overall sales, though decent, were likely affected in April by the start of the Holy month of Ramadan, usually a slower

month for real estate trading. Looking ahead, we expect the residential activity to remain solid in the near to mid-term, backed by a strong demand base and somewhat limited supply, while the weakness in the commercial and investment sectors will likely take some time to subside as the overall economy continues to recover.

Residential sector activity the main driver in overall sales

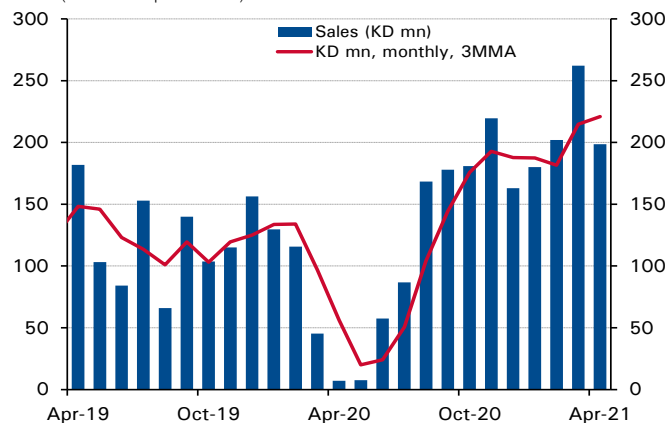
The strength in aggregate real estate sales since the rebound last summer stemmed mostly from elevated volumes in the residential sector. Sales averaged a monthly KD215 million in 1Q21, stemming from a monthly average of 675 deals, up 25% and 148% y/y respectively. More recently in April, residential sales totaled KD199 million from 748 transactions, contrasting sharply with the pre-pandemic average of 371 transactions per month in 2019. We believe the higher volume is being driven by pent-up demand after several months of non-trading in the lockdown months of 2Q20, coupled with solid fundamentals in the sector including its resilience to pandemic pressures. Robust fundamentals stem from limited supply and a growing national population, and are supported by good liquidity and minimal job losses for citizens during the pandemic, keeping demand stable. Moreover, as profitability in the investment sector comes under increasing pressure from vacancies and falling rents, there are signs of investors turning increasingly to the residential sector for investment opportunities. An additional driver is the increased offerings in the relatively more active and less saturated emerging areas such as the Sabah Al Ahmad, Saad al Abdulla, and Jaber Al Ahmad residential areas.

While yet to be confirmed, there are some indications that point to moderate price gains in some parts of the residential sector, which would have contributed to the higher sales levels seen in recent quarters. Though the strong activity and sales in the

residential sector may ease in coming months as pent-up demand fades, we expect it to be stable in the near-to-medium term, as strong demand by nationals should persist.

Chart 2: Residential sector sales

(KD million per month)



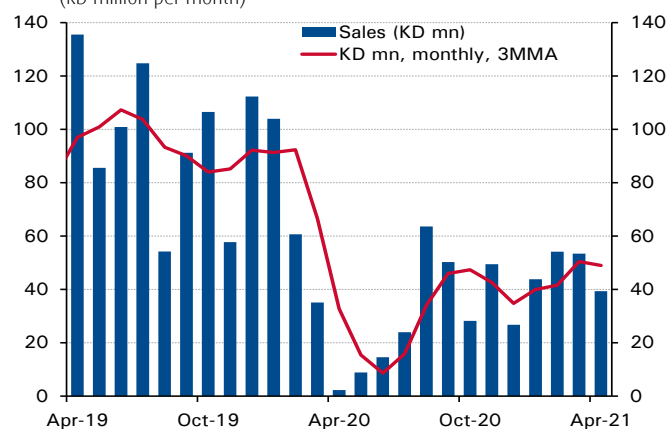
Source: Ministry of Justice/ NBK

Investment sector continues to show signs of weakness

Investment sector (i.e. apartment) sales amounted to a relatively weak KD39 million in April, down 23% m/m, but still up significantly from the historical lows of April 2020 when the national lockdown was in effect. (Chart 3.) Still, Investment sector sales remained well below pre-pandemic levels, amid a marked decline in monthly volumes reflecting weaker demand and a decline in the expatriate population – who dominate demand for this type of property. This adds to the pre-existing weakness in the sector, which faced declining rents, lower prices, and rising vacancies prior to the pandemic, arising from a period of oversupply and slower economic growth. Although the picture on rents is not fully clear (the rents component of the CPI has been unusually stable), anecdotal evidence points to lower rents or discounts being commonly offered to new or renewing tenants given prevailing softness in the market.

Chart 3: Investment sector sales

(KD million per month)



Source: Ministry of Justice/ NBK

We expect a full recovery to take some time, especially in light of a relatively soft economic recovery, job nationalization efforts,

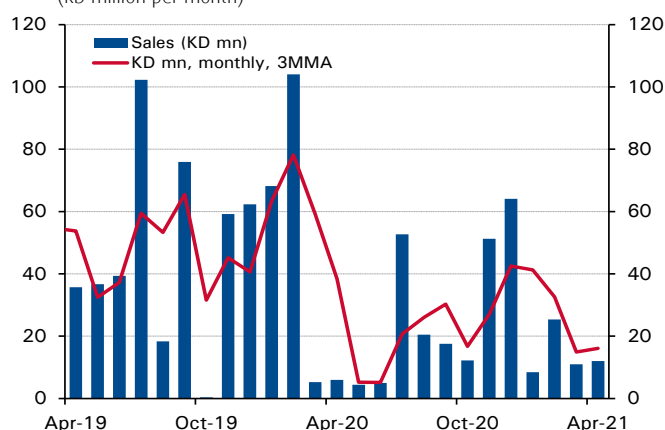
and the recently proposed measures to address the demographic imbalance by imposing caps on the number foreign residents.

Commercial sector activity remains relatively muted

Commercial sector sales amounted to just KD12 million in April, doubling from a year earlier but still well down on its averages for both 2019 and even 2H20. (Chart 4.) Low volumes were a contributing factor, with 7 deals in April, compared to an average of 38 deals per month in 2019. The commercial sector – which normally comprises a minority share in total sales – was negatively affected by weak business activity extending beyond the lockdown, with reports of businesses struggling to pay rent, leading to rent reductions and deferred payments for some tenants, especially severely impacted retail tenants with high rents in malls. As the economy and the business environment picks up supported by progress on the vaccine front, a gradual recovery may get underway for the sector, but weakness may still take some time to subside. This is especially true given the large number of distressed SMEs and a considerable loss of expat jobs, which will could continue to weigh on demand for commercial space and prices in some areas.

Chart 4: Commercial sector sales

(KD million per month)



Source: Ministry of Justice/ NBK

Draft mortgage law approved by the government

On a related note, the much anticipated draft mortgage law was recently approved by the government and passed to parliament for discussion. Although a sign of progress, the law could take some time to be approved. The law aims to ease the rising pressure on the state-owned Kuwait Credit Bank (KCB) to provide housing loans to citizens, especially given the current liquidity constraints faced by the government. Although the details of the law are yet to be confirmed, some elements are apparent (though still subject to change). The loans of up to KD70,000 will be sourced from commercial banks rather than the KCB, but with a shorter maturity of 30 years rather than the 58 years under the current arrangement, in effect nearly doubling the monthly installment to just under KD200, a popular area of concern. The law also provides for repossession of the home in the event of default, though it is unclear whether the government will step

in to mitigate this risk on homeowners. Further, all interest payments to banks generated from the loans are to be assumed by the government. It follows that the residential sector should receive a boost as easier access to financing lifts demand, though the supply side will need to be addressed if excessive price gains are to be mitigated.

► **Table 1: Real estate sales**

| | Monthly Average | | Monthly Sales/ Transactions | | | | Change in April, % | |
|--|-----------------|--------------|-----------------------------|--------------|--------------|--------------|--------------------|---------------|
| | 2019 | 2020 | Jan 21 | Feb 21 | Mar 21 | Apr 21 | m/m | y/y |
| Sales (KD million) | 265.8 | 186.5 | 232.2 | 281.4 | 326.5 | 249.9 | -23.5 | 1522.3 |
| Residential | 123.3 | 113.3 | 180.0 | 202.0 | 262.2 | 198.5 | -24 | 2687 |
| Investment | 93.1 | 39.0 | 43.8 | 54.1 | 53.4 | 39.4 | -26 | 1626 |
| Commercial | 49.5 | 34.3 | 8.4 | 25.3 | 11.0 | 12.0 | 10 | 100 |
| Number of Transactions | 526.5 | 439.8 | 365 | 839 | 1100 | 833 | -24.3 | 3370.8 |
| Residential property | 371.3 | 372.7 | 296 | 752 | 977 | 748 | -23 | 4056 |
| Investment | 116.3 | 56.7 | 66 | 79 | 115 | 78 | -32 | 1460 |
| Commercial | 38.9 | 10.5 | 3 | 8 | 8 | 7 | -13 | 600 |
| Average Transaction Value (KD th) | 505.5 | 466.0 | 636.2 | 335.4 | 296.9 | 300.0 | 1.1 | -53.3 |
| Residential property | 331.3 | 313.5 | 608.1 | 268.6 | 268.3 | 265.4 | -1 | -33 |
| Investment | 810.1 | 790.2 | 663.3 | 685.2 | 464.6 | 504.6 | 9 | 11 |
| Commercial | 2832.9 | 4043.9 | 2811.0 | 3168.6 | 1369.4 | 1715.0 | 25 | -71 |

Source: Ministry of Justice

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